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1994 Annual Report

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SEVEN WINNING YEARS

The Montana Lottery has set a trend of consistent growth since a law change in 1989 allowed greater flexibility in operations. In fiscal year 1994, the Lottery increased total revenue by 2 percent and net revenue by 5 percent over fiscal year 1993's record breaking year.

*Includes six days of sales in fiscal year ending 6/30/87.

-Lottery Mission Statement-

MAXIMIZE REVENUES AS WELL AS TRANSFERS AND ENSURE THAT POLICIES AND RULES ADOPTED FURTHER REVENUE MAXIMIZATION.

GOVERNOR'S MESSAGE

In its seventh year of operation, the Montana Lottery continues to be challenged by its mandate of maximizing revenues for important state programs. To date, the Lottery has generated over $41.6 million for Montana's elementary and secondary public schools and $1.7 million for the Board of Crime Control.

Voters in Montana approved the state lottery in 1986 by nearly 70 percent. A 1994 baseline study shows its approval has increased to 77 percent. Because of its popularity, the Montana Lottery must respond by offering products that meet the demands of the public and at the same time, protect the integrity of the operation through efficiency and responsiveness.

Fiscal year 1994 was a record breaking year for the Montana Lottery, and indeed, a victorious year for players, retailers, and the entire State of Montana.

Sincerely,

Marc Racicot

Marc Racicot
Governor

The Montana Lottery Commission's responsibility to oversee Lottery operations provides us an opportunity to serve the people of the State of Montana. We're delighted with the Lottery's financial successes, which were repeated in fiscal year 1994 with revenue that topped $37.6 million, breaking a record for the fourth consecutive year.

In addition to providing a healthy $9.4 million in funding for essential state programs, the Lottery was enjoyed by players and retailers across Montana in the form of prizes and commissions which helped fuel the local economies. Over $18 million was won by players, and the 700 plus Lottery retailers earned more than $2.1 million.

Becky Erickson of Glasgow, Lottery Chairperson

The Lottery continues to grow and prosper with the professional and dedicated staff at the Montana Lottery and the support of the Governor and Legislature.

As we turn our sights to the future, the Montana Lottery Commission will continue to responsibly represent the public and offer a variety of Lottery products. We look forward to continued success and winning with Montana.

Sincerely,

Becky Erickson

Becky Erickson
Chairperson

L to R - Lottery Commission - Cliff Brophy of Columbus, David Kasten of Brockway, Dwaine Iverson of Shelby and Larry O'Toole of Plentywood

DIRECTOR'S MESSAGE

Fiscal year 1994 was a year of change for the Montana Lottery. As we continue to mature, it is imperative that we place even greater emphasis on operating efficiently and effectively to meet our legislative mandate of maximizing revenues. In spite of another year of record growth and profits, we continue to be challenged by ever-increasing competition and pressures from other forms of entertainment.

Consequently, the staff has spent a great deal of effort this past year analyzing all aspects of our operation and product mix. With input from our Commission, Legislators, vendor partners, retailers and players, we have taken initial steps to increasing our vitality and productivity to ensure long-term growth.

I want to thank the Governor, the Legislature and our Commission for their continued support and good sense. As we look forward to fiscal year 1995, we rededicate ourselves to excellence as we continue to enhance our product line and operation, and increase profits for the State of Montana.

We also owe a debt of gratitude to our retail network and players who make our successes possible.

Sincerely,

Charmaine D. Murphy

Charmaine D. Murphy
Director

SCRATCH TICKETS

Montana Lottery operations and profits are funded through the sale of SCRATCH and Lotto tickets.

The Lottery's first product was a SCRATCH game, *Pot of Gold*, which went on sale in June 1987. Since startup, the Lottery has sold over $94 million in SCRATCH tickets and has offered more than 60 different SCRATCH games to the public.

Product enhancement and improvement is an ongoing process at the Lottery. The Lottery investigated the possibility of introducing a strategy successful in other lottery states. Called multi-game strategy, it helps increase sales by offering players a wider variety of SCRATCH games. Players have a choice of play styles, graphics, prize structures and themes. Placed strategically to provide maximum visibility and increased appeal, retailers benefit from this strategy as well.

Among the Montana Lottery's most successful marketing ventures during the fiscal year was the simultaneous introduction of two separate games, *More Prizes* and *Bigger Prizes*, sold as a package. *More Prizes* featured a $100 top prize and a higher-than-usual payout of 65 percent. *Bigger Prizes* featured a $10,000 top prize, eliminated the typical Free Ticket and $1 prize, and had a lower payout of 40 percent. The successful strategy of simultaneously selling two complimentary games reinforced the Lottery's resolve to move into a multi-game strategy to increase overall SCRATCH ticket sales by offering players more choices.

LOTTO PRODUCTS

LOTTO LEADS SALES

In February 1994, Montana joined with Idaho and South Dakota to offer TRI-WEST LOTTO to their players. TRI-WEST LOTTO joins the Montana Lottery's on-line product mix consisting of POWERBALL and MONTANA CA$H. Since the introduction of on-line games in Montana, revenue has increased by 75 percent and transfers to the state have increased by 124 percent.

On-line sales increased to $29.6 million, an increase of almost 7%. Operating costs have remained nearly constant, increasing just 3% over fiscal year 1993 despite the addition of the new TRI-WEST LOTTO game.

RECORD TRANSFERS

The Montana Lottery's fiscal year 1993 financial success was repeated in fiscal year 1994. With a 2 percent increase in total revenue, to $37.6 million, and an increase in net revenue of 5 percent, to $9.4 million, the Lottery's financial picture has improved yearly since fiscal year 1990.

FISCAL YEAR SNAPSHOT

SCRATCH

- Introduced in June, 1987
- 21% of total sales
- 11 games were introduced in fiscal year 1994
- Top prizes ranged from $500 to a $32,605 Ford F-150 pickup package which included state and federal tax plus first year's licensing fees
- An estimated $4,000,000 paid to players in the form of prizes
- Over $586,000 paid to retailers in the form of commissions and bonuses

POWERBALL

- Introduced in April, 1992
- Currently operated in conjunction with sixteen other lottery jurisdictions
- Five numbers are drawn from one field of 45 numbers, plus another (POWERBALL) number from a second field of 45 numbers
- 49% of total sales
- In fiscal year 1994, 15 tickets matched the first five numbers to win the second tier prize of $100,000, including two Helena players, who had three tickets that won $100,000 each on the March 30, 1994 drawing
- On each drawing, nearly 4,000 Montana POWERBALL players won money ranging from $1 to $100,000
- 532,025 Montanans won $3,765,830 in fiscal year 1994
- Over $925,000 was paid to retailers in commissions

MONTANA CA$H

- Introduced in May, 1991
- 24% of total sales
- Five numbers are chosen from a field of 37
- During fiscal year 1994, 36 MONTANA CA$H players won or shared jackpots ranging from $20,000 to $228,200
- On average, 67 MONTANA CA$H players won $200 and 2,190 players won $5 each drawing
- In fiscal year 1994, 324,805 players won a total of $4,675,370 playing MONTANA CA$H
- Over $436,000 was paid to retailers in commissions

TRI-WEST LOTTO

- Introduced February, 1994 in Montana, South Dakota and Idaho
- Six numbers are chosen from a field of 41
- 6% of total sales
- On each drawing, three Montanans won approximately $500; 145 players won approximately $20; and over 2,000 Montanans won $1
- 78,864 Montana TRI-WEST LOTTO players won $235,561 since the game commenced in February
- Over $120,000 was paid to retailers in commissions

MONTANA WINS

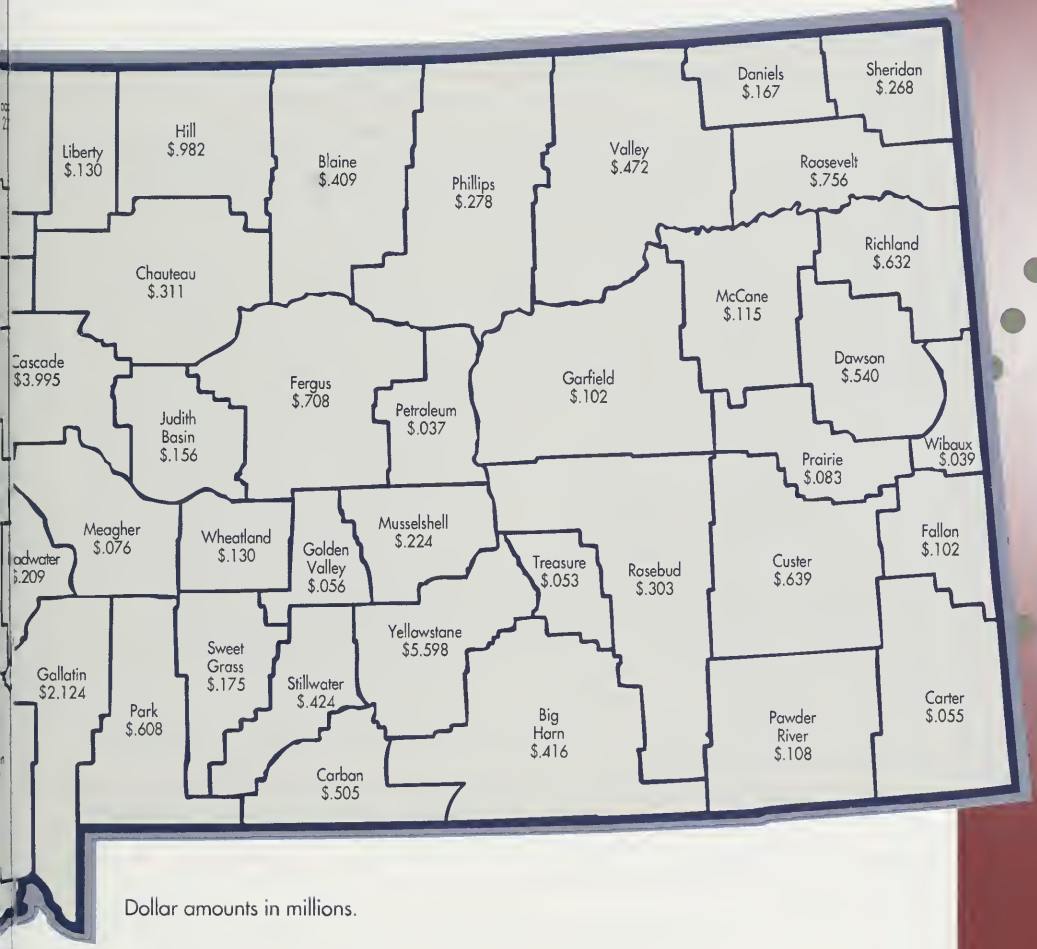
By offering an increased variety of SCRATCH games, and continuing to enhance Lotto products, the Montana Lottery experienced its most successful year. The Lottery ended fiscal year 1994 with a record transfer of $9.4 million to the Office of Public Instruction and the Board of Crime Control.

Since startup in June of 1987, the Lottery has transferred over $43 million to help fund state programs.

At the end of each quarter the Lottery transfers 90.9 percent of its net revenue to the Office of Public Instruction for the School Equalization Aid Account which funds Montana's elementary and secondary schools. To date, the Lottery has transferred over $41.6 million to Montana's public schools.

Beginning in fiscal year1992, the Board of Crime Control started receiving Lottery revenue to fund the operation of juvenile detention centers and associated administrative costs. In fiscal year 1992, the Lottery transferred 1.6 percent of its net revenue for a total of $89,325. Beginning in fiscal year 1993, 9.1 percent of the Lottery's net revenue (not to exceed $1 million per fiscal year) was transferred to the Board of Crime Control. To date, the Board of Crime Control has received over $1.7 million.

ESTIMATED LOTTERY DISTRIBUTION TO COUNTIES
FISCAL YEARS 1987 THROUGH 1994



Dollar amounts in millions.

AUDITOR'S REPORT

To the Commissioners
Montana State Lottery
Helena, Montana

We have audited the accompanying balance sheet of Montana State Lottery (Lottery), a component unit of the State of Montana, as of June 30, 1994, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Lottery's management.
Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Montana State Lottery as of June 30, 1993 and 1992, were audited by other auditors whose reports dated September 21, 1993 and September 11, 1992, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State Lottery as of June 30, 1994, and the results of its operations, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Olness + Associates, PC

September 2, 1994

BALANCE SHEETS
AS OF JUNE 30

	1994	1993	1992
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (note 2)	$ 3,023,658	$ 3,078,823	$ 1,447,158
Accounts receivable, less allowance for doubtful receivables of $8,453 in 1994, $4,842 in 1993, and $985 in 1992	872,264	1,703,655	661,160
Inventory	218,247	125,860	140,671
Other current assets (note 3)	147,404	26,223	11,635
TOTAL CURRENT ASSETS	4,261,573	4,934,561	2,260,624
FIXED ASSETS			
Furniture, fixtures, and equipment	1,569,363	1,566,281	1,479,072
Accumulated depreciation and amortization	(1,403,559)	(1,361,318)	(1,247,491)
	165,804	204,963	231,581
OTHER ASSETS			
Long-term receivable (note 4)	1,131,198	589,144	571,823
	$ 5,558,575	$ 5,728,668	$ 3,064,028
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 206,921	$ 506,150	$ 417,829
Estimated prize liability (note 5)	936,658	1,455,503	457,248
Transfer obligations (note 6)	2,656,575	2,787,138	1,257,477
Other current liabilities (note 7)	456,279	269,173	231,867
TOTAL CURRENT LIABILITIES	4,256,433	5,017,964	2,364,421
LONG-TERM LIABILITIES (note 8)	1,300,782	709,344	698,247
	5,557,215	5,727,308	3,062,668
FUND EQUITY			
Contributed capital	1,360	1,360	1,360
COMMITMENTS AND CONTIGENCIES (notes 9 and 12)	-	-	-
	$ 5,558,575	$ 5,728,668	$ 3,064,028

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED JUNE 30

	1994	1993	1992
OPERATING REVENUES			
Instant ticket games	$ 7,844,749	$ 9,106,433	$ 9,248,920
On-line games	29,638,035	27,656,397	18,673,019
License fees	2,500	5,650	4,350
TOTAL OPERATING REVENUES	37,485,284	36,768,480	27,926,289
COST OF TICKET REVENUES			
Instant ticket prize expense	4,296,652	4,944,962	5,094,809
On-line ticket prize expense	13,851,838	12,797,555	8,456,198
Retailer commission	2,068,256	2,058,730	1,609,178
On-line vendor fees	4,560,711	4,790,469	3,741,750
Cost of tickets sold	381,971	418,984	479,346
TOTAL COST OF TICKET REVENUES	25,159,428	25,010,700	19,381,281
NET OPERATING REVENUES	12,325,856	11,757,780	8,545,008
OPERATING EXPENSES			
Advertising	662,623	695,633	669,472
Bad debts	4,000	3,623	4,760
Communications	72,351	73,131	75,121
Contractual Services	537,064	406,248	527,062
Depreciation and Amortization	42,241	115,606	237,172
Management fees	94,742	102,712	94,740
Multi-state operating fees	110,201	42,685	44,268
Personal services	1,155,612	1,186,383	1,114,772
Repairs and maintenance	82,358	82,020	77,085
Supplies and materials	162,591	112,447	48,256
Utilities and rent	92,623	93,745	95,165
Travel	36,383	35,820	40,003
Other	31,185	41,446	20,996
TOTAL OPERATING EXPENSES	3,083,974	2,991,499	3,048,872
OPERATING INCOME	9,241,882	8,766,281	5,496,136
NONOPERATING REVENUES (EXPENSES)			
Interest Income	121,863	116,432	95,184
Loss on dispasal of equipment	-	(595)	(6,459)
TOTAL NONOPERATING REVENUES (EXPENSES)	121,863	115,837	88,725
INCOME BEFORE OPERATING TRANSFERS	9,363,745	8,882,118	5,584,861
OPERATING TRANSFERS OUT			
Office of Public Instruction	(8,511,644)	(8,073,845)	(5,493,509)
Board of Crime Control	(852,101)	(808,273)	(89,325)
TOTAL OPERATING TRANSFERS	(9,363,745)	(8,882,118)	2,027
NET INCOME	-	-	-
RETAINED EARNINGS, BEGINNING OF YEAR	-	-	(2,027)
RETAINED EARNINGS, END OF YEAR	$ -	$ -	$ -

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	$ 9,241,882	$ 8,766,281	$ 5,496,136
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	42,241	115,606	237,172
Changes in operating assets and liabilities			
Accounts receivable	831,391	(1,042,495)	(58,528)
Inventory	(92,387)	14,811	33,250
Other current assets	(117,805)	(12,121)	1,453
Long-term receivable	(542,054)	(17,321)	(29,014)
Accounts payable	(299,229)	88,321	76,958
Estimated prize liability	(518,845)	998,255	34,313
Other current liabilities	187,106	37,306	(12,534)
Long-term liabilities	591,438	11,097	26,875
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,323,738	8,959,740	5,806,081
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers out:			
Office of Public Instruction	(8,630,325)	(6,777,694)	(5,333,065)
Board of Crime Control	(863,983)	(574,763)	(86,716)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(9,494,308)	(7,352,457)	(5,419,781)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(3,082)	(89,583)	(9,930)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,082)	(89,583)	(9,930)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	118,487	113,965	95,183
NET CASH PROVIDED BY INVESTING ACTIVITIES	118,487	113,965	95,183
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,165)	1,631,665	471,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,078,823	1,447,158	975,605
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,023,658	$ 3,078,823	$ 1,447,158

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
The Montana State Lottery (hereafter referred to as the Lottery) was created in November 1986 by a referendum vote of the people of Montana. Section 23-7-101, Montana Code Annotated (MCA) establishes the provision of the code under which the Lottery operates. The Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set ticket prices, determine the number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games with other states, and prepare financial reports. The Lottery is attached to the Montana Department of Commerce for administrative purposes.

Disposition of revenue is a minimum of 45 percent for prizes and a maximum of 10 percent for commissions to sales agents and payment of operating expenses. The remaining revenue is transferred to the Montana Office of Public Instruction and the Montana Board of Crime Control.

Reporting Entity
The Lottery is includable as a component unit within the State of Montana financial statements. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Lottery's financial statements as a reporting agency.

Basis of Accounting
The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations similar to private business enterprises where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition
Sales of instant lottery tickets are made to licensed retailers who market the tickets to the public on a commission basis. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by retailers may be returned for credit. Sales are reduced for estimated ticket returns.

Sales of on-line lottery tickets are made to licensed retailers who market the tickets through the use of computerized terminals on a commission basis. Revenue is recognized on drawing dates. Tickets sold in advance of future drawing dates are recorded as deferred revenue until the ticket becomes valid for a drawing.

Prizes
Prepaid prizes represent prizes purchased and on-hand in advance of game awards. Prize expense is recognized based on a predetermined prize structure for each instant ticket and on-line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

Cash and Cash Equivalents
Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Inventory
Inventories consist of tickets and supplies. Ticket inventory includes instant lottery tickets that are carried at cost using the specific identification method. Tickets are charged to cost of sales when sold. Unsold tickets are charged to cost of sales upon the end or cancellation of the related game.

Supply inventory is carried at cost and expensed as used.

Fixed Assets
Fixed assets are recorded at cost. Ordinary maintenance and repairs are charged to operations as incurred, major renewals and betterments are capitalized. Upon disposition or retirement of fixed assets, the cost and related accumulated depreciation or amortization is removed from the accounts. Gain or loss on disposal is reflected in operations. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of two to ten years.

Compensated Absences
State employees earn vacation leave ranging from fifteen to twenty-four days per year based on years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave accumulates at a rate of twelve days per year with no maximum accumulation. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

Intangible Assets
Intangible assets represent the per ticket cost paid to Automated Wagering Inc. for advance on-line ticket sales. These ticket sales, also referred to as deferred revenue, represent tickets sold prior to June 30, 1994, 1993 and 1992 for drawings held subsequent to year-end.

Reclassifications
The Lottery has reclassified certain prior year balances to conform to the current year's presentation.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	JUNE 30,		
	1994	1993	1992
Short-term investment pool	$2,881,100	$2,730,600	$1,407,200
Cash on deposit with State Treasurer	132,408	337,668	29,808
Cash in revolving deposit account	10,000	10,000	10,000
Cash in transit	-	405	-
Petty Cash	150	150	150
	$3,023,658	$3,078,823	$1,447,158

Reference to the audit of the State of Montana would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $10,258, $19,209 and $21,543 at June 30, 1994, 1993 and 1992 respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

NOTE 3 - OTHER CURRENT ASSETS

Other current assets consist of the following:

	JUNE 30,		
	1994	1993	1992
Prepaid prizes and expenses	$120,571	$ 5,448	$ 1,717
Intangible assets	12,072	8,390	-
Interest receivable on investment pool	10,761	7,385	4,918
Employee advances	4,000	5,000	5,000
	$147,404	$26,223	$11,635

NOTE 4 - MULTI-STATE LOTTERY ASSOCIATION

Joint Venture Association
In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. The Lotto*America/Powerball game and the Tri-West Lotto game are presently the only games operated jointly by the members. Each lottery participating in MUSL is represented on the Board of Directors.

Prize Reserve Fund Receivable/Payable
As a member of the MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The contributions are to be used to fund unanticipated prize claims. All funds remitted, and the related interest earnings, will be returned to the Lottery upon leaving the association, less any portion of unanticipated prize claims, which may have been paid from the fund.

The Lottery contributes to the reserve fund through the set-aside for prizes. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

During 1990, the MUSL Board created the unreserved accounts to record interest earned on the various prize reserve funds when the prize reserve fund balance is not below the predetermined ceiling amount The amounts in the unreserved accounts may be used at the Board's discretion

The long-term receivable balance of $1,131,198, $589,144 and $571,823 at June 30, 1994, 1993 and 1992, respectively, represents the Lottery's share of the MUSL prize reserve fund that had a balance of $49,946,409, $26,281,598 and $24,802,045 for 1994, 1993 and 1992, respectively. The long-term liability balance of $1,153,060, $571,823 and $571,823 at June 30, 1994, 1993 and 1992, respectively, represents the Lottery's share of the total estimated prize liability

Lotto*America Prizes and Investments

Prizes awarded to Lotto*America grand prize winners are paid in twenty annual installments funded by investments in United States Treasury zero coupon bonds Bonds purchased on behalf of Montana source winners are held in trust by MUSL with the Montana State Lottery as beneficiary As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the grand prize winners on the anniversary date of each win.

At June 30, 1994, 1993 and 1992, MUSL held United States Government zero coupon bonds in trust for the Montana State Lottery winners with respective par values of $51,060,111, $54,115,254 and $57,168,169, and respective market values of $29,491,684, $30,837,895 and $29,008,008

The Montana State Lottery has five Lotto*America winners. The combined total of future prize payments owed is $51,059,000, $54,115,000 and $57,165,000 at June 30, 1994, 1993 and 1992, respectively. Total annual payments due over each of the next five years is $3,053,000 annually and $35,794,000 thereafter The present value of future prize payments approximates the current market value of the bonds held in trust for the Montana State Lottery winners

Multi-State Lottery Association Financial Position

Information related to the Multi-State Lottery Association's audited financial statements is as follows

	JUNE 30,		
	1994	1993	1992
Total assets	$629,173,279	$494,301,889	$352,471,846
Total liabilities	629,014,878	494,110,111	352,194,457
Total fund balance	158,401	191,778	277,389
Total liabilities and fund balance	$629,173,279	$494,301,889	$352,471,846
Total revenues	$ 2,191,190	$ 1,625,280	$ 2,240,279
Total expenses	2,224,567	1,710,891	$ 2,061,060
Excess (deficit) revenues over expenses	$ (33,377)	$ (85,611)	$ 179,219

NOTE 5 - ESTIMATED PRIZE LIABILITY

The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game

NOTE 6 - OBLIGATION TO TRANSFER FUNDS

Beginning July 1, 1992, the Lottery is required to transfer, each quarter, 9 1 percent of income before transfers to the Montana Board of Crime Control The balance of income before transfers is transferred to the Montana Office of Public Instruction The following is a summary of total transfer obligations outstanding

	JUNE 30,		
	1994	1993	1992
Transfer obligation - MT Board of Crime Control	$ 241,748	$ 253,630	$ 20,120
Transfer obligation - Office of Public Instruction	2,414,827	2,533,508	1,237,357
Total transfer obligations	$2,656,575	$2,787,138	$1,257,477

NOTE 7 - OTHER CURRENT LIABILITIES

Other current liabilities consist of the following

	JUNE 30,		
	1994	1993	1992
Estimated return ticket liability	$202,417	$ 34,719	$ 24,917
Due to other state agencies	172,930	185,107	102,950
Deferred on-line revenue	80,932	49,347	104,000
	$456,279	$269,173	$231,867

NOTE 8 - LONG-TERM LIABILITIES

Long-term liabilities consist of the following

	JUNE 30,		
	1994	1993	1992
Prize liability Multi-State Lottery Association	$1,153,060	$571,823	$571,823
Accrued compensated absences	147,722	137,521	126,424
	$1,300,782	$709,344	$698,247

NOTE 9 - LEASES

The Lottery leases its office, administrative and warehouse facilities under a lease agreement expiring February 1997

The annual minimum lease payments under noncancelable operating leases, as of June 30, 1994, are.

Year ending June 30.	
1995	$78,000
1996	78,000
1997	52,000

Rent expense under operating leases charged to operations was $78,000 for the years ended June 30, 1994 and 1993 and $80,400 for the year ended June 30, 1992

NOTE 10 - EMPLOYEE BENEFIT PLANS

Pension Plan

All eligible employees of the Lottery participate in the Montana Public Employees Retirement System (PERS), a defined benefit, cost-sharing, multiple-employer retirement plan The Lottery is required to contribute for full-time employees at the rate of 6 55% of annual compensation under State statute Employees are required to contribute 6 55% of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked

The total number of Lottery employees covered during the years ended June 30, 1994, 1993 and 1992 was 34, 42 and 35, respectively Total payroll for Lottery employees was $914,535 in 1994, $945,448 in 1993, and $872,695 in 1992 Total covered payroll was $880,321, $913,695 and $868,537 for 1994, 1993 and 1992, respectively The Lottery's contributions were $69,949, $59,847 and $55,734 for the years ended June 30, 1994, 1993 and 1992, respectively. Benefit eligibility is age 60 with at least five years service, age 65 regardless of service, or 30 years of service regardless of age Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service Monthly retirement benefits are determined by taking 1/56 times the number of years of service times 60% maximum of final pay Members' rights became vested after five years of service

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Lottery is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis

NOTES TO THE FINANCIAL STATEMENTS

The pension benefit obligation at June 30, 1993 (the latest information available) for the State system as a whole was $1,405,884,112. The system's net assets available for benefits at cost on June 30, 1993 were $1,107,748,782 leaving an overall unfunded pension benefit obligation of $298,135,330. The Lottery's 1993 contribution represented less than 1% of total June 30, 1993 contributions required of all participating entities. The Lottery is not responsible for any state system unfunded liability.

Ten year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1993 annual financial report, which is available from the Montana Department of Administration.

Deferred Compensation Plan

The Lottery's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance. The amount of compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts deferred under the plan created under Internal Revenue Code Section 457 remain the property of the State of Montana until paid, subject only to claims of the State of Montana's general creditors. Participants' rights under the plan are equal to those of general creditors of the State of Montana, in an amount equal to the fair market value of the deferred account for each participant.

NOTE 11 - RELATED PARTY TRANSACTIONS

During the ordinary course of business, other State agencies provide certain services and supplies to the Lottery. During 1994, 1993 and 1992, total payments to other State agencies were approximately $1,496,700, $1,440,000 and $1,372,275, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Instant Tickets

The Lottery has signed agreements to purchase instant game tickets from Dittler Brothers, Inc. through June, 1996. This contract may be canceled by the Lottery with proper notification.

Maintenance Contracts

The Lottery has signed an agreement for computer hardware and software maintenance with Stratus Computer, Inc., for $5,334 per month. This contract expires February, 1995.

On-Line Vendor

The Lottery has signed a contract with Automated Wagering International, Inc., a wholly owned corporation of Video Lottery Technologies, Inc., to provide on-line terminals, central computers, and a telecommunications network through November, 1996. The contract provides for payments to be based on a percentage of weekly sales.

Prize Contingencies

Certain Big Spin prizes awarded are payable to the winners in annuity installments, spanning seventeen to twenty years, with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance carrier under which purchased annuities will provide the required level of payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance carrier will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the gross amount of $3,234,559, $3,484,559 and $3,734,559 at June 30, 1994, 1993, and 1992, respectively, if the insurance carrier defaulted on their payments.

Advertising

The Lottery signed a contract with Wendt Advertising to provide advertising services for $12,750 through September, 1994. The Lottery has the option to extend the contract for two additional years.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to fiscal year end, 1994, the Governor's Task Force to Review Montana Government approved a proposal submitted by the Lottery requesting permission to pursue public comment related to the Lottery's proposed privatization of operations. Lottery officials cannot anticipate the results of public comment or whether privatization will ultimately be approved.

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